

Joint Economic Committee WEEKLY ECONOMIC DIGEST

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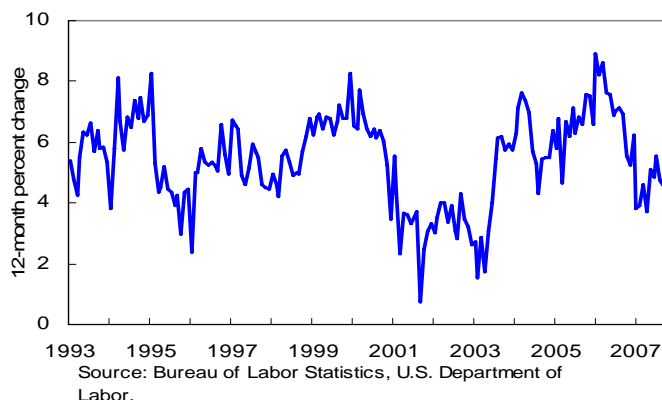
October 15, 2007

ECONOMIC NEWS

Despite September Bounce in Sales and Payrolls, Concerns Remain

Strength in automotive sales boosted overall retail sales in September. Sales at retail establishments and food services grew by 0.6 percent last month, following a 0.3 percent rise in August. Automotive sales (vehicles, parts, and gasoline) grew by 1.5 percent last month, accounting for almost three-quarters of the growth in overall sales. Excluding the volatile automotive categories, retail sales grew by 0.2 percent in September and have risen at a modest 4.5 percent pace over the past 12 months (see chart).

Retail Sales Excluding Motor Vehicle and Gasoline Sales



Payrolls picked up last month, but the outlook remains a concern. Total payroll employment at nonfarm establishments rose by 110,000 jobs in September, after growing at an average rate (as revised) of 91,000 jobs per month in July and August. Even so, payroll growth in the past three months has been substantially more subdued than the average monthly pace of 134,000 jobs between January and June. Total payrolls have grown by only 1.2 percent over the past year.

The trade gap narrowed in August but remains large. Exports of goods and services rose by \$0.6 billion in August, while imports dropped by \$0.8 billion. As a result, the U.S. deficit for international trade in goods and services declined by \$1.4 billion to \$57.6 billion for the month. Both exports and imports posted weaker growth in August than they did over the previous three months. Even with the August decline, the trade deficit remains unsustainably large and exports will have to grow substantially more rapidly than imports over a prolonged period for the trade balance to improve significantly.

IN FOCUS

Expect Higher Heating Bills this Winter

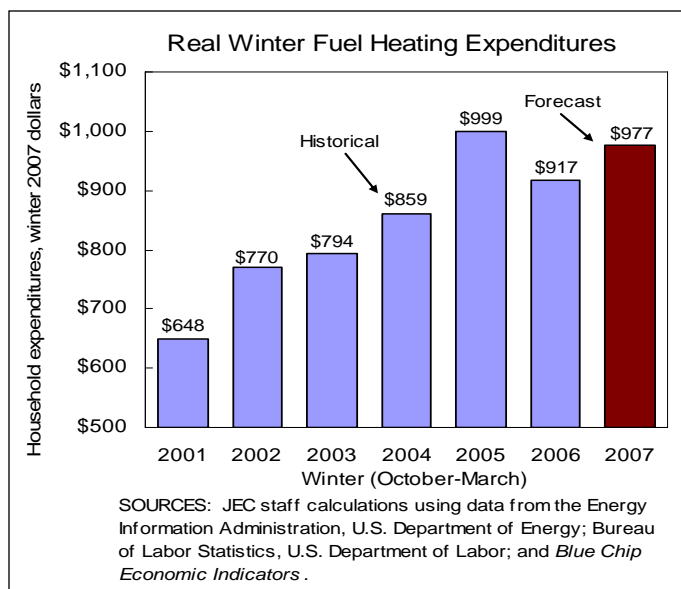
The average U.S. household is likely to spend \$977 dollars to heat their homes between October 2007 and March 2008, according to forecasts released by the Department of Energy last week. That amounts to an average increase of \$88 per household (9.9 percent) over last winter's heating bill. Moreover, the rise in average heating costs expected for this winter is nearly certain to be higher than increases in the overall cost of living. Real (inflation-adjusted) home heating costs are likely to be higher this winter than in any recent heating season except for the winter of 2005, when hurricanes Katrina and Rita caused energy prices to spike (see Snapshot).

The expected increase in heating expenditures reflects assumptions that: (1) this winter will be colder than last for most of the United States; and, (2) prices of all fuel types are likely to be higher as well.

A colder winter will require households to consume more energy to heat their homes. The National Oceanic Atmospheric Administration is currently expecting this winter to be 4 percent colder in the lower-48 states than last year. (That would still be 2 percent warmer than the average over the 1971-2000 period.) As a result, the Department of Energy expects that the 58 percent of U.S. households that rely primarily on natural gas for heating will use 3.0

Continued on reverse...

SNAPSHOT



Joint Economic Committee WEEKLY ECONOMIC DIGEST

THE WEEK AHEAD

DAY	RELEASE
Tuesday, Oct 16	Industrial Production and Capacity Utilization (September 2007)
Wednesday, Oct 17	Consumer Price Index (September 2007) New Residential Construction (September 2007) Federal Reserve "Beige Book"

Wednesday
Oct 17th:
New home
building for
September

THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	Sep	Aug	Jul	2007 Q3	2007 Q2	2007 Q1	2006	2005
Real GDP Growth (%)	—	—	—	n.a.	3.8	0.6	2.9	3.1
Unemployment (% of labor force)	4.7	4.6	4.6	4.7	4.5	4.5	4.6	5.1
Labor Productivity Growth (%)	—	—	—	n.a.	2.6	0.7	1.0	1.9
Labor Compensation Growth (%)	—	—	—	n.a.	3.6	3.2	3.1	3.3
CPI-U Inflation (%)	n.a.	-1.2	1.2	n.a.	6.0	3.8	3.2	3.4
Core CPI-U Inflation (%)	n.a.	2.4	2.4	n.a.	1.9	2.3	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

IN FOCUS (Continued)

percent more gas this winter than last. Heating demand for electricity (the primary heating fuel for 30 percent of U.S. households) is likely to rise by 1.5 percent nationwide. Heating oil demand (the primary heating fuel for 7 percent of U.S. households, largely in the colder Northeast and Midwest regions) is expected to climb 5.0 percent. Finally, propane consumed in heating (the primary heating fuel for 5 percent of U.S. households) is likely to rise by 3.1 percent this winter.

The prices of heating fuels are expected to rise this winter as well and, in most cases, they are expected to rise faster than the cost of living. Heating oil prices are expected to be 16.0 percent higher this winter relative to last, largely reflecting the combination of spare production capacity, low stocks, and strong demand that have recently raised world prices of crude oil: for example, the price of West Texas Intermediate crude oil has risen sharply since early September to over \$81 per barrel most recently (almost 40 percent above the price that prevailed this time last year), and futures markets suggest that further price increases may be imminent. The prices households can expect to pay for propane heating are also sharply higher than last winter (12.9 percent). More moderate increases are expected this winter for the prices of natural gas (6.3 percent above last winter) and electricity (2.3 percent above last winter), the two fuels that account for nearly 90 percent of heating demands.

The type of fuel typically used for heating varies across regions as does the severity of winter and heating needs. As a result, the pain of a colder winter and higher energy prices will be more acute in some regions than others. For example, while only 7 percent of households nationwide use heating oil as their primary heating fuel, 32 percent of households in the Northeast do, and those households can expect to pay 22 percent more to heat their homes this year than last. By contrast, households in the South using electricity as their primary heating fuel can expect to spend only about 3 percent more on heating this winter than was the case last year, with price increases accounting for about two-thirds of those increased costs.

The Department of Energy's forecast is particularly sensitive to the winter weather projections. While the Department's assumption that this winter will be 4 percent colder than last appears to be the likeliest scenario at this point, temperatures colder or warmer than that could significantly affect heating costs. The Department estimates that average U.S. household heating bills would be about 18 percent higher than last year should this winter be 10 percent colder than last winter. Alternatively, if this winter were 10 percent warmer than last winter, average U.S. heating bills would be about the same as last winter.